DISCOVERING A BUSINESS MODEL

The Essentials

Startup: A temporary organization in search of a scalable, repeatable, profitable business model.

The **customer development method** guides a systematic search for a successful business model, which helps mitigate startup risk.

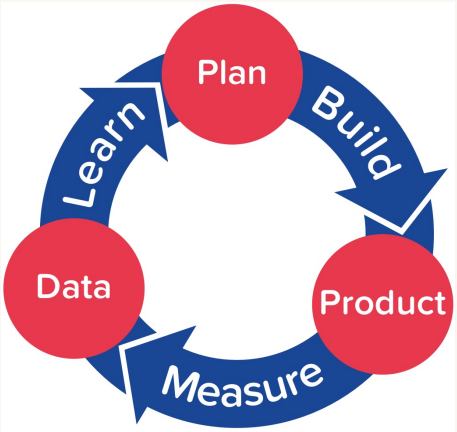
There are four stages of the customer development method:

1. During **customer discovery,** the founders' vision is translated into testable business model hypotheses.
2. During **customer validation** the resulting business model is tested for repeatability and scalability.
3. The market, product position, and demand are established during **customer creation**.
4. During **company building**, the organization grows to support execution of business model.

The **Build-Measure-Learn loop** uses customer feedback and learning cycles to develop products or services.

Many startups **pivot**, or radically change their focus.

Build-Measure-Learn loop



A **minimum viable product** starts the loop.

Assessing Market Opportunity

The **market opportunity** is defined by the type of market and whether it is large enough to be profitable. Assessing it involves:

- primary research, which is new research conducted by the entrepreneur or their team, and
- secondary research, which is obtained from other sources.

A **top-down analysis** estimates the total market, then narrows to the predicted share of that market. A **bottom-up analysis** estimates one component and then sees how large it could scale.

Generally, you bring a product to market by:

- entering an existing market, creating a new market, re-segmenting an existing market, or recreating a successful model in another region.

Key Market Estimates

Total addressable market: The maximum market demand for a product or service.

Served addressable market: The portion of the TAM targeted by your product that is feasibly within reach of your company's sales channels.

Target market: A particular group of consumers at which a product or service is aimed.

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Business Model Canvas

A **business model canvas (BMC)** is a template that summarizes the nine key components of a business model in a single diagram.

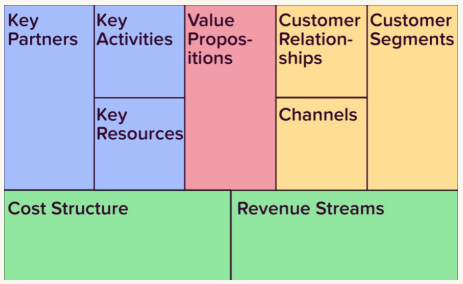
The BMC's starting point is the **value proposition**. It identifies how an offering will be successful, its features and benefits, and any ideas for a minimum viable product.

A complete BMC will cover customers (e.g., the target customers, channels, and relationships), infrastructure (e.g., resources activities, and partners), and finances.

Lean canvas: A modified version of the BMC that includes less about logistics and more about the customer.

The lean canvas takes the focus away from operations and places the emphasis on ideas.

The Business Model Canvas



The lean canvas replaces Key Partners, Key Activities, Key Resources, and Customer Relationships with Problem, Solution, Key Metrics, and Unfair Advantage, respectively.

Validating the Problem

Pass/fail tests are used to validate (or update) the hypotheses on a business model canvas.

Problem presentations: Conversations in which customers give feedback on the startup's assumptions about their problems.

- Aim to talk to 50 people.
- Focus on customer problems, current solutions, and proposed solutions.

Customer discovery scorecard: A document that is used to score customers' responses on a variety of criteria.

Remember: Do both qualitative and quantitative research, and do it both online and in person!

Customer discovery scorecard

Customer	Excitement	Urgent Need	Buy w/in 120 days?
A	3	3	2
B	2	1	1
C	1	3	2

Testing the Solution

Proof of concept: A non-user-friendly, internal test to see if a product can be built.

Prototype: A working model that approximates the final product, but isn't quite ready for customers.

Minimum viable product: The simplest possible customer-ready version of a product. There are several types, including:

- single feature MVPs, concierge MVPs, landing pages, and customer funded MVPs.

Solution presentation: A conversation with customers that includes a demonstration to test whether your offering fits their problem or need.

Always look for **product-market fit**! To do so, ask if you are satisfying the needs of a good-sized market.

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